

Message Text

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ORIGIN FEA-01

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TO USMISSION OECD PARIS PRIORITY

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E.O. 11652: N/A

TAGS: ENRG

SUBJECT: IEA GOVERNING BOARD MEETING FEBRUARY 5-7,
1975

1. PLEASE PASS FOLLOWING TO BOSWORTH AND CONANT.
2. FOLLOWING ARE FEA/IEA COMMENTS ON DRAFT GOVERNING PRINCIPLES TO BE SUBMITTED TO IEA GOVERNING BOARD:
3. "AN ASSESSMENT OF THE GOVERNING PRINCIPLES TO BE SUBMITTED TO THE GOVERNING BOARD OF THE IEA IS BEST DIVIDED INTO LONG - AND SHORT-TERM EVALUATIONS, THE TWO BEING QUITE DIFFERENT. IT IS RECOGNIZED THROUGHOUT THAT THESE PROPOSALS ARE IN A VERY PRELIMINARY STAGE AND ARE, THEREFORE, EVALUATED IN PRINCIPLE RATHER THAN ON LIMITED OFFICIAL USE

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THE BASIS OF SPECIFICS.

LONG TERM

TO THE EXTENT THAT SUCH COORDINATION OF NATIONAL POLICY WILL STIMULATE ENERGY PRODUCTION IN THE CONSUMING STATES FROM NON-OPEC SOURCES, ITS IMPACT WILL BE POSITIVE. LIKEWISE, THE ESTABLISHMENT OF A PRICE FLOOR TO PROVIDE SECURITY FOR INVESTMENTS IS SOUND. IT IS, HOWEVER,

IMPORTANT THAT SUCH A FLOOR BE REASONABLY MODEST FOR SEVERAL REASONS:

(A) IF THE FLOOR IS TOO HIGH, IT COULD RESULT IN THE CONSTRUCTION OF A GREAT DEAL OF EXCEEDINGLY INEFFICIENT INFRASTRUCTURE. BECAUSE WE DO NOT KNOW WITH ANY PRECISION WHAT A LONGER-TERM PRICE SHOULD BE, OUR FIRST APPROACH TO A PERMANENT PRICE FLOOR SHOULD NECESSARILY BE CONSERVATIVE.

(B) A HIGH PRICE FLOOR RUNS A SERIOUS RISK OF CONFIRMING THE OPEC MEMBER STATES CONTENTION THAT THE PRICE OF OIL IS "NOT TOO HIGH" NOR IS IT "UNSUSTAINABLE". A HIGH FLOOR COULD STRENGTHEN RATHER THAN WEAKEN OPEC RESOLVE.

SHORT TERM

THE SHORT-TERM IMPACT OF THE PROPOSALS DEPENDS UPON OUR EVALUATION OF THE POLITICAL IMPACT OF THEIR ECONOMIC AND COMMERCIAL IMPLICATIONS. ON THIS SCORE, WE ARE NOT OPTIMISTIC. THE PROFITS TO OPEC STATES AT CURRENT PRICES ARE SO GREAT AS TO OBLITERATE ANY LONG-TERM PRICING ARGUMENT FOR THEIR REDUCTION. THE CURRENT CASH VALUE OF REVENUES FIVE YEARS HENCE IS SIMPLY NEGLIGIBLE WHEN COMPARED TO THE FUTURE CASH VALUE OF INVESTMENTS OF REVENUES ACCRUING OUT OF CURRENT PROFITS. WE BELIEVE THAT THE OPEC STATES ARE AWARE OF THESE ECONOMIC AND COMMERCIAL IMPLICATIONS AND ARE THEREFORE NOT OPTIMISTIC THAT THE THREAT OF THE MAJOR CONSUMING STATES TO DEPRIVE OPEC OF LONG-TERM MARKETS WILL HAVE SIGNIFICANT POLITICAL LIMITED OFFICIAL USE

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IMPACT.

IN ADDITION, WE ARE CONCERNED WITH THE FOLLOWING SPECIFIC ISSUES:

UNCLEAR WHAT A CONSORTIUM IS SUPPOSED TO DO AND HOW IT WILL BE STRUCTURED.

SERIOUS PATENT LAW CONSIDERATION REGARDING "ACCESS
TO INFORMATION."

ERDA PROBABLY HAS NOT BEEN CONSULTED. WE MAY
HAVE SERIOUS LEGAL PROBLEMS IN IMPLEMENTING ANY
AGREEMENT, (E.G., FOREIGN INVESTMENT IN ERDA R&D
PROJECTS) POLITICALLY WE COULD HAVE TO BACK TRACK
AFTER MAKING THESE PROPOSALS.

PRICE FLOOR ONLY CONCERNS PETROLEUM INVESTMENT WHILE
STATE DRAFT PROPOSAL CONCERNS PROTECTION OF NUCLEAR
INVESTMENTS ALSO

UNCLEAR DRAFT--E.G., DRAFT DECISIONS ON R&D AND
SYNTHETIC FUELS SHOULD TRACK EACH OTHER--THEY DON'T

MUST DEFINE SOME TERMS--E.G., UNITARY MANAGEMENT." KISSINGER

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